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Review of the efficiency of the administrative and financial functioning of the United Nations

Activities of the Independent Audit Advisory Committee for the period from 1 August 2010 to 31 July 2011

Report of the Independent Audit Advisory Committee

Summary

The present report covers the period from 1 August 2010 to 31 July 2011. During the period, the Independent Audit Advisory Committee (the Committee) held four sessions, all of which were presided over by David M. Walker (United States of America). Mr. Walker was re-elected to continue as Chair for the 2011 calendar year. Vijayendra Kaul (India) served as Vice-Chair until the end of his term in December 2010, after which, John Muwanga (Uganda) succeeded him as Vice-Chair. All the members of the Committee, including, where applicable, Mr. Kaul, who did not seek re-election, and Vinod Rai (India), who succeeded him as the representative from the Asia Group, attended each of the four sessions during the reporting period.

Section II of the report contains an overview of the activities of the Committee, the status of its recommendations and its plans for 2011. Section III sets out the detailed comments of the Committee.

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I. Introduction

1. The General Assembly, by its resolution 60/248, established the Independent Audit Advisory Committee as a subsidiary body to serve in an expert advisory capacity and to assist it in fulfilling its oversight responsibilities. In accordance with its terms of reference (see General Assembly resolution 61/275, annex), the Committee is authorized to hold up to four sessions per year. The Committee has held 15 sessions since its inception in January 2008.

2. In accordance with its terms of reference, the Committee submits an annual report to the General Assembly, containing a summary of its activities and related advice. The present, fourth annual report covers the period from 1 August 2010 to 31 July 2011.

3. The observations, comments and recommendations of the Committee on the effectiveness, efficiency and impact of the oversight activities of the Office of Internal Oversight Services (OIOS), which were previously included as an annex to the Committee's report, have been incorporated in the body of the present report under section III.C. In its resolution 65/250, the General Assembly decided to defer consideration of the issues contained in annex III of the Committee's report (A/65/329) to its sixty-sixth session and invited the Committee to provide any further advice it deemed necessary. While reiterating its previous recommendation, the Committee has decided to include that information in section III.B of the present report.

II. Activities of the Independent Audit Advisory Committee

A. Overview of the sessions of the Committee

4. During the reporting period, the Committee held four sessions: on 15 and 16 December 2010 (twelfth session); from 15 to 17 February 2011 (thirteenth session); on 12 and 13 April 2011 (fourteenth session); and from 11 to 13 July 2011 (fifteenth session). All of the sessions were held at United Nations Headquarters.

5. The Committee functions under its adopted rules of procedure, as contained in the annex to its first annual report (A/63/328). To date, all members of the Committee have a 100 per cent attendance rate at its sessions. All of the decisions of the Committee have been unanimous; however, its rules of procedure make provision for members to record their dissent with decisions taken by the majority.

6. At its twelfth session, held in December 2010, the members re-elected David M. Walker (United States of America) as Chair and elected John Muvanga (Uganda) as Vice-Chair, for 2011. Additional information about the Committee can be found on its website in all the official languages of the United Nations (see http://www.un.org/ga/iaac/index.shtml).

7. Since its establishment, the Committee has submitted 11 reports to the General Assembly, 3 of which were submitted during the current reporting period. These include two reports to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, on the proposed programme budget of OIOS for the biennium 2012-2013 (A/66/85) and on the budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2011 to

30 June 2012 (A/65/734). The Committee also issued its annual report to the General Assembly for the period 1 August 2009 to 31 July 2010 (A/65/329).

B. Status of the recommendations of the Committee

8. As at 30 June 2011, the Committee had made a total of 82 recommendations in its reports. Ten of the recommendations contained in the Committee's previous reports (A/65/734 and A/66/85) are before the General Assembly. The remaining 72 recommendations include 15 recommendations that the General Assembly has deferred to subsequent sessions, 43 recommendations that have been implemented and 14 recommendations that are in the process of being implemented.

9. Most of the deferred recommendations are to be considered by the General Assembly no later than the main part of its sixty-sixth session (see resolutions 64/263, para. 6, and 65/250, para. 9). The first set of the recommendations pertains to internal oversight and covers the following issues: definition of the operational independence of OIOS; definition of impairment to OIOS independence; annual assurance on OIOS independence; development of an internal oversight document that contains the definitions and terms; protocol for the distribution of OIOS reports; and selection of staff for appointment and promotion. The second set pertains to resolution 65/250 on accountability, and is addressed in detail in section III.B of the present report. **The Independent Audit Advisory Committee reiterates these recommendations and believes that it is important for the General Assembly to consider the recommendations at its sixty-sixth session.**

10. Although it meets only four times per year for two to three days at each session, the Committee has made significant achievements to date, particularly in relation to the operations of OIOS. The Committee follows up on the implementation of its recommendations as a standard agenda item at each session and looks forward to seeing the full effect of the actions taken by OIOS and by management. Some of the significant recommendations made by the Committee during the reporting period relate to:

(a) The need for OIOS and management to coordinate the risk categorization process so as to align the OIOS risk-based audit planning process with the enterprise risk management framework that the administration has embarked on in order to avoid confusion among key stakeholders;

(b) The proposal of the Secretary-General to provide support to the Under-Secretary-General in the overall departmental strategy, in intradepartmental cooperation initiatives, in the monitoring of divisional activities, and in the operational and administrative responsibilities of the Office;

(c) The reiterated recommendation calling for urgent action to fill vacant posts in OIOS, especially at the level of division heads, in order to ensure that the effectiveness and efficiency of OIOS in the performance of its mandated functions is not compromised;

(d) While the Committee acknowledged that the audit of key controls embarked upon by OIOS was a step in the right direction, the reiterated recommendation for OIOS to establish a systematic assessment of residual risk in order to better assess the overall level of resources allocated to OIOS and to enhance the determination of the audit assignments within the available level of resources;

(e) The reiterated recommendation that all OIOS divisions, including the Internal Audit Division, show the value of the services delivered to the Organization by reporting on the achievement of results;

(f) The need to revisit the issue of a funding arrangement for OIOS, especially in connection with operations and entities funded by extrabudgetary sources;

(g) Recommendation that the Committee would not object to a reasonable level of budget cuts involving OIOS should Member States decide to take such a position, while reiterating the Committee's position that the Under-Secretary-General for Internal Oversight Services should have the flexibility to decide how any overall cuts would be achieved.

C. Overview of the plans of the Committee for 2012

11. The Committee undertook its responsibilities, as set out in its terms of reference, in accordance with the scheduling of the sessions of the General Assembly and of the Advisory Committee on Administrative and Budgetary Questions. The Committee will continue to schedule its sessions and activities to ensure coordinated interaction with intergovernmental bodies and timely availability of its reports. In a preliminary review of its workplan, the Committee identified several key areas that will be the focus for each of its four sessions in fiscal year 2012 (see table).

Table
Workplan of the Committee for 2012

Sessions	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
Seventeenth	Proposed budget for OIOS under the support account for peacekeeping operations for the period from 1 July 2012 to 30 June 2013	Advisory Committee on Administrative and Budgetary Questions, first quarter 2012
	Coordination and cooperation among oversight bodies	
Eighteenth	Status of implementation of oversight bodies recommendations	General Assembly
	Risk management and internal controls	
	Coordination and cooperation among oversight bodies	
Nineteenth	Operational implications of issues and trends in the financial statements and reports of the Board of Auditors	General Assembly, main part of the sixty-sixth session
	Cooperation among United Nations oversight bodies	

Sessions	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
	Preparation of the annual report of the Committee	
Twentieth	Results of OIOS risk assessments	
	Workplans of OIOS for 2013	
	Review of OIOS budget for the support account for peacekeeping operations	Advisory Committee on Administrative and Budgetary Questions, first quarter 2013
	Review of the enterprise risk management and internal control framework in the Organization	
	Election of the Chair and Vice-Chair for 2013	

12. In the discussion on planning for 2012, the Committee identified the following relevant events:

(a) Consideration by the General Assembly of recommendations concerning OIOS made by the Committee in its annual report (A/64/288, annex) and deferred by the Assembly to no later than the main part of its sixty-sixth session (resolution 64/263, para. 6);

(b) Consideration by the General Assembly of recommendations concerning accountability made by the Committee in its annual report (A/65/329, annex III) and deferred by the Assembly to no later than its sixty-sixth session (resolution 65/250, Part II, para. 9);

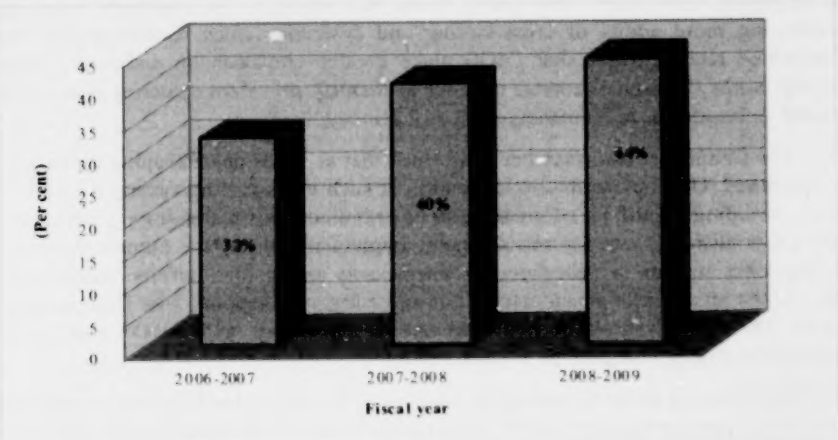
(c) Since the terms of office of two members will expire on 31 December 2011, it will be necessary for the General Assembly, at its sixty-sixth session, to appoint two persons to fill the resulting vacancies. The persons so appointed will serve for a period of three years, beginning on 1 January 2012.

III. Detailed comments of the Committee

A. Status of the recommendations of United Nations oversight bodies

13. During the reporting period, the Committee reviewed the status of implementation by management of the recommendations of United Nations oversight bodies, as a standard practice. According to the report of the Board of Auditors on United Nations peacekeeping operations for the 12-month period from 1 July 2009 to 30 June 2010 (A/65/5 (Vol. II), chap. II), the rate of implementation of the recommendations made for the financial period ended 30 June 2009, in respect of peacekeeping operations, was 44 per cent. The Board noted that there was an improvement in the rate of implementation of recommendations when compared with the previous years, as shown in figure I below.

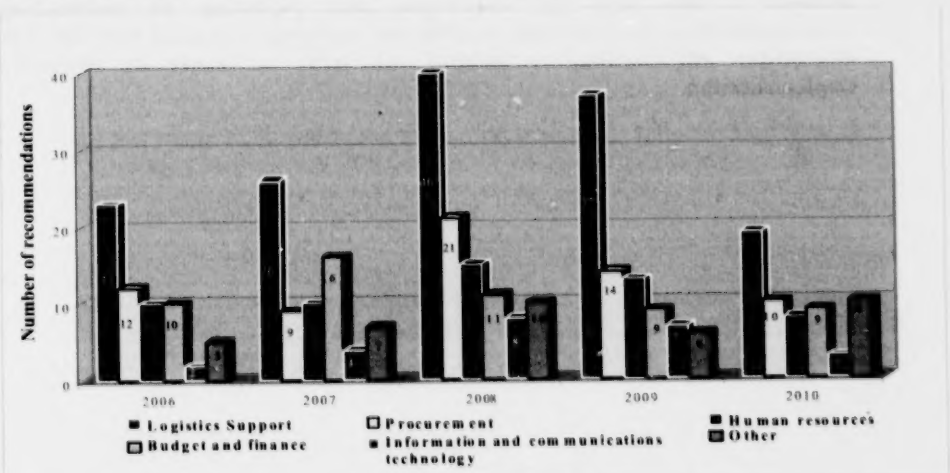
Figure I
Rate of implementation of peacekeeping operations



14. **While acknowledging the improvement in the implementation rate, and noting that most of the recommendations of the Board of Auditors on peacekeeping operations are fully implemented after three years, the Independent Audit Advisory Committee still believes that there is room for improvement and that the timely implementation of recommendations is essential to increase the level of accountability.**

15. The Committee was also provided with a trend analysis of the thrust areas addressed by the various recommendations contained in the Board of Auditors reports on peacekeeping operations. As figure II indicates, over the past five years, logistics support has had the highest number of recommendations. High numbers of recommendations in one thrust area could be an indicator of systemic issues that need to be addressed or of areas of high activity.

Figure II
Thrust areas addressed in Board of Auditors recommendations



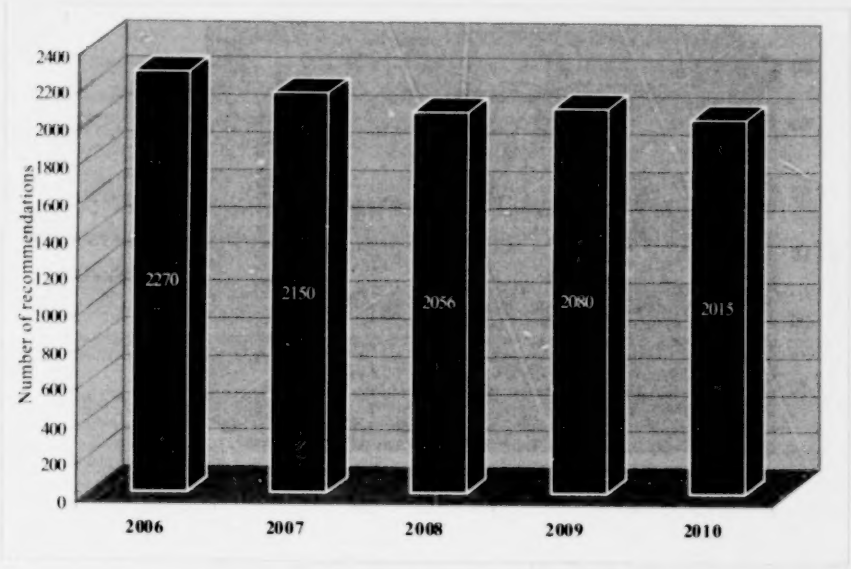
16. Within the context of cooperation and coordination among the oversight bodies, the Independent Audit Advisory Committee noted in paragraph 8 of annex I of its report (A/65/329), that OIOS could add value to its oversight work by conducting more audits of cross-cutting and systemic issues. Consequently, the Committee recommended that OIOS place greater emphasis on audits of cross-cutting issues (horizontal audits) in order to identify prevalent systemic issues that needed to be addressed by management as a priority.

17. The Committee has since been informed that as far as peacekeeping operations is concerned, OIOS plans to conduct audits of such cross-cutting/systemic issues in 2011, including regarding information and communications technology governance; Internet publishing; security management; implementation of the human resources management reform in peacekeeping operations; and a civil affairs programme. Most of the areas under consideration fall under logistics support. **The Independent Audit Advisory Committee will continue to follow up with OIOS and looks forward to timely completion of such audits.**

18. With respect to the recommendations made by OIOS, the Committee received a briefing from management on the trends associated with the implementation of the recommendations. The Committee was informed by management that after a period of three years most of the outstanding recommendations of OIOS had been fully implemented, and the critical or high-risk recommendations that remained unimplemented continued to be brought to the attention of the Management Committee. **The Independent Audit Advisory Committee wishes to take this opportunity to recognize the important role that the Management Committee is playing in strengthening accountability in the Secretariat and reiterates that the Management Committee should continue to meet with the oversight bodies including the Independent Audit Advisory Committee, at least once a year.**

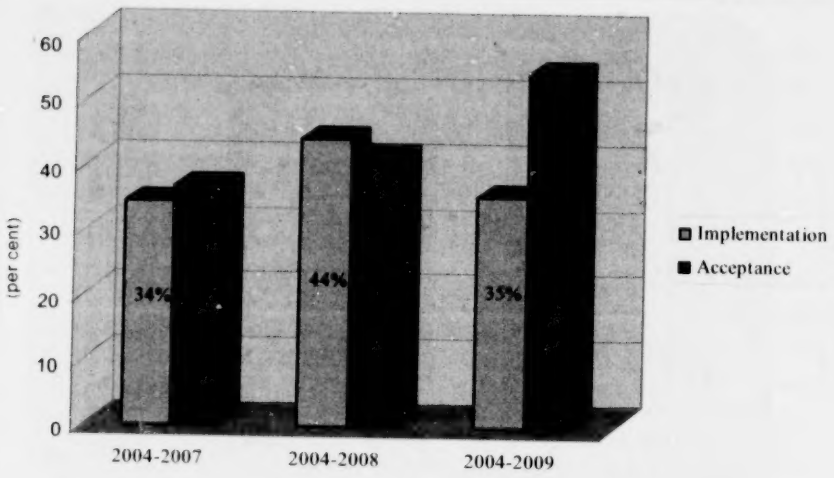
19. With respect to the number of recommendations issued annually by OIOS, the Committee was informed by management that the number had almost remained constant, declining slightly from 2,270 in 2006 to 2,015 in 2010 (see figure III below). In paragraph 35 of its annual report (A/64/288), the Committee, without making judgement on the number of recommendations, encouraged OIOS to concentrate on quality and value added, rather than on quantity. **Consequently, the Independent Audit Advisory Committee has been informed that OIOS has outlined a new plan for monitoring and reporting on outstanding recommendations that will help to allay the concerns expressed thus far. The Committee will continue to monitor this issue to ensure its successful implementation.**

Figure III
Total number of Office of Internal Oversight Services recommendations per year



20. The Committee also received an update on the status of implementation of the recommendations made by the Joint Inspection Unit. According to the annual report of the Unit, the aggregate acceptance rate of its recommendations by the Secretariat was 54.4 per cent for the 2004-2009 period, compared with 41.3 per cent for the 2004-2008 period. The aggregate implementation rate was 35.3 per cent for the 2004-2009 period, compared with 44 per cent for the 2004-2008 period. The Committee was informed of the challenges the Secretariat faces in implementing the Joint Inspection Unit recommendations, including the fact that some of the recommendations are addressed to the General Assembly and that management has no control over them. Figure IV shows the aggregate implementation/acceptance rates by the Secretariat as reported by the Joint Inspection Unit in its annual reports. **The Independent Audit Advisory Committee notes the improvement in the acceptance rates and, while acknowledging the challenges faced by management, encourages the Secretariat to enhance its implementation rates of the Joint Inspection Unit recommendations addressed to the Secretariat.**

Figure IV
Status of implementation/acceptance of Joint Inspection Unit recommendations



B. Risk management and internal control framework

21. Subparagraphs 2 (f) and (g) of the terms of reference of the Committee (see General Assembly resolution 61/275, annex) mandate the Committee with the responsibility to advise the General Assembly on the quality and overall effectiveness of risk management procedures and on deficiencies in the internal control framework of the United Nations.

22. In annex III of its report (A/65/329), the Committee included comments on the implementation of General Assembly resolution 64/259 entitled "Towards an accountability system in the United Nations Secretariat". By its resolution 65/250, on the report on the Office of Internal Oversight Services on its activities, the Assembly decided to defer consideration of those recommendations to the main part of its sixty-sixth session. At the same time, the Assembly invited the Committee to provide further advice on relevant issues under its terms of reference, as it deemed necessary.

23. With respect to the accountability system, the Committee was briefed on the progress management had so far achieved in implementing resolution 64/259. **While noting these achievements, including the finalization of the accountability website, the Independent Audit Advisory Committee decided to reiterate all the recommendations contained in annex III of its report (A/65/329), namely, that:**

- **The Secretary-General integrate enterprise risk management in the programme planning process (para. 7).**
- **The Secretary-General be responsible to design, monitor and evaluate the system of accountability (para. 8).**
- **The General Assembly consider expanding the definition of accountability to include adding value and managing risks, and that risk should be**

defined to include financial, operational, reputation and human resources risks (para. 9).

- **The definition of accountability include a reference to the obligation of contractors and consultants (para. 10).**
- **The Secretariat develop a clearly defined and well-documented implementation plan (para. 12).**

24. In its first annual report (A/63/328), the Committee made several recommendations in respect of the first accountability report, including (a) the phased implementation of enterprise risk management in a few selected organizational units; (b) the need for an executive-level document that describes in clear terms for senior management what the benefits are to adopting enterprise risk management and an internal control framework, and for the Organization's implementation plan to include a structured training programme and a communication strategy targeting all staff; (c) the assignment of project oversight to a high-level committee, such as the existing Management Committee, in order to demonstrate senior management's commitment to its implementation; and (d) the establishment of a Chief Risk Officer.

25. Following discussions with management, the Committee was informed that enterprise risk management remained a significant challenge for the Secretariat. The Committee was also informed that the Secretariat had established a focal point in the Office of the Under-Secretary-General for Management, to lay the foundation for future implementation of an enterprise risk management framework. Management further informed the Committee that a policy framework for enterprise risk management had been endorsed by the Management Committee and would be presented to the General Assembly at its sixty-sixth session. The Committee was also informed that the Management Committee would also serve as the Committee for issues related to enterprise risk management.

26. **The Independent Audit Advisory Committee commends the steps that management is taking to implement enterprise risk management, and believes that, given the size and complexity of the Organization, enterprise risk management should be considered one of the highest priorities of the Organization and should continue to enlist the support of senior leadership to ensure successful implementation.**

27. **The Independent Audit Advisory Committee also noted that one of the four recommendations enumerated in paragraph 24 above (for a Chief Risk Officer) had yet to be implemented. The Committee wishes to reiterate the importance of such a post to the successful implementation of enterprise risk management Secretariat-wide. The Chief Risk Officer should have appropriate authority and adequate resources to achieve his/her related responsibilities.**

C. Effectiveness, efficiency and impact of the audit activities and other functions of the Office of Internal Oversight Services

28. The terms of reference provide for the Independent Audit Advisory Committee to advise the General Assembly on aspects of internal oversight (see resolution 61/275, annex, paras. 2 (c)-(e)). In undertaking its mandate, the Committee has maintained its standard practice of meeting with the Under-Secretary-General for

Internal Oversight Services and other senior OIOS officials during its sessions. The discussions have focused on OIOS workplan execution, significant findings reported by OIOS, operational constraints (if any), post incumbency and the status of implementation by management of OIOS recommendations, including the top 10 to 20 recommendations that had not been implemented by management, strengthening investigations and funding arrangements.

Workplan and budget of the Office of Internal Oversight Services for 2011-2012

29. The responsibilities of the Committee with respect to OIOS are set out in the terms of reference and include the examination by the Committee of the workplans of OIOS, taking into account the workplans of the other oversight bodies and advising the General Assembly thereon.

30. The Committee reported its observations and recommendations with regard to OIOS workplans in its report on the budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2011 to 30 June 2012 (A/65/734) and in its report on the proposed programme budget for OIOS for the biennium 2012-2013 (A/66/85). In paragraph 25 of its report on the OIOS budget under the support account for peacekeeping operations for the period from 1 July 2010 to 30 June 2011 (A/64/652), the Committee recommended, inter alia, that OIOS undertake a review of its planning assumptions and estimates, in particular as they related to the available audit days (see also paras. 19-24). In its report (A/65/734, para. 14), the Committee, was pleased to note that OIOS had put the recommendation into effect, contributing to a reduction in the resource requirement for the Internal Audit Division.

31. The Committee also reiterated its previous recommendation regarding residual risk and was encouraged to note that OIOS had included in its workplan for the regular budget, the audit of key controls that management has put in place to mitigate the inherent risks. **The Independent Audit Advisory Committee looks forward to the implementation of the reiterated recommendations in this regard, especially those related to the systematic assessment of the residual risk as the basis for determining the overall level of resources allocated to OIOS.**

32. The Committee continued to monitor implementation of the workplans of the divisions in OIOS and the timelines of reports. In addressing OIOS delays in the issuance of its reports, the Committee stressed the importance of finalizing reports in a timely manner since the value of oversight work diminished when reports took too long to be completed.

33. With respect to the regular budget of OIOS, the Committee, in its report (A/66/85), noted its support for the Deputy position requested by the Secretary-General. In the Committee's view, the level of the position is important, given the proposed role and the operational protocols within the United Nations. The Committee therefore believes that the level of the position should reflect its duties and responsibilities and the level of similar positions in other United Nations organizational units.

Vacant posts in the Office of Internal Oversight Services

34. In its previous reports to the General Assembly, the Committee reported on the high number of vacancies in OIOS. Similarly, in its reports on United Nations

peacekeeping operations and accounts (A/64/5 (Vol. II) and A/65/5 (Vol. II)), the Board of Auditors commented on the vacancy rate of resident auditors and investigators in peacekeeping missions and investigation hubs.

35. OIOS informed the Committee that as at 31 May 2011, the overall vacancy rate in OIOS was 21.5 per cent, which is an improvement over the 23.2 per cent rate reported by the Committee in its previous annual report (A/65/329). The highest vacancy rates continue to be in the Investigations Division (25.5 per cent) and in the Internal Audit Division (22.4 per cent). In those two divisions, the vacancies related mainly to posts funded from the peacekeeping support account and extrabudgetary funds. For example, in the Investigations Division, as at 31 May 2011, 32.7 per cent of posts funded from the peacekeeping budget and 25.0 per cent of posts funded from the extrabudgetary account were vacant. Similarly, the vacancy rate for posts in the Internal Audit Division was 21.1 per cent (peacekeeping budget) and 30.6 per cent (extrabudgetary account), respectively.

36. In its report (A/65/329), the Committee noted with concern that two posts at the Director level, namely, the Director of the Investigations Division and the Director of the Inspections and Evaluation Division, had not been filled. The Committee has since been informed that the two Directors have been hired and will be on board in August 2011. This will mean that all division head positions will be filled for the first time in many years.

37. In its resolutions 64/263 and 65/250, the General Assembly endorsed the comments made previously by the Committee on the filling of vacancies in OIOS and requested the Secretary-General to ensure the full implementation of the relevant comments of the Committee. OIOS advised the Committee that it was taking steps to recruit staff and to lower the vacancy rates. Accordingly, the Committee was informed that the vacancy rate after August 2011 would be even lower after the several recruitment actions had been finalized. **This effort notwithstanding, the Independent Audit Advisory Committee is concerned that the high vacancy rate in the Investigations Division, especially in the hubs, could affect the result of the pilot project on investigations, and requests that OIOS takes into account such effects when assessing the relative utility of endorsing one of the options. The Committee will continue to monitor steps taken by OIOS to expedite the filling of vacant posts, especially the resident auditor and investigation positions.**

Quality assessments of the Internal Audit Division of the Office of Internal Oversight Services

38. In 2011, the Internal Audit Division of the Office of Internal Oversight Services initiated a client satisfaction survey covering various aspects of its oversight function and shared the results of the surveys with the Committee. The client survey questionnaire, which related to year 2010, was conducted between February and March 2011 and covered overall feedback on the work of the Division; ratings of the internal audit staff; rating of the scope of the audit; and rating on the audit process and report.

39. The Committee was informed that the survey result showed that 62.5 per cent of the clients agreed that audits contributed to the identification and management of key risks; the cost effectiveness of internal controls; the achievement of operational objectives; and an effective governance process. Based on the feedback from the

client survey, the Committee was informed that OIOS planned to meet with the various clients to discuss concerns raised in such areas as knowledge of a client's mandates, programmes and processes; timeliness of reporting; and accuracy of findings.

40. **The Independent Audit Advisory Committee continues to believe that the surveys initiated by OIOS are steps in the right direction since they provide an independent basis for OIOS to be able to assess the quality and value of its work, to identify the positive feedback from the respondents and to address areas in which corrective action was required. The Committee also believes that OIOS should strive to achieve a higher rate of satisfaction than the 62.5 per cent reported in 2011. The Committee also reaffirms its prior recommendation that OIOS supplement the client survey with specific outcome-based measurements that demonstrate the value that OIOS adds to the United Nations.**

41. According to the Institute of Internal Auditors Standard 1312, on external assessment, internal audit activities are to undergo an external assessment at least once every five years, starting 1 January 2002. During the reporting period, the Committee was informed that OIOS had engaged the Institute of Internal Auditors to undertake an external quality assessment. The objectives of the review are to assess the conformity of Internal Audit Division practices and processes with its audit manual and with the standards of the Institute of Internal Auditors, to assess the efficiency and effectiveness of the Division in meeting the needs of stakeholders and to make recommendations to improve and streamline the internal audit process.

42. **The Independent Audit Advisory Committee looks forward to receiving the result of that assessment and encourages OIOS to extend such reviews to investigation and inspection and evaluation divisions.**

Strengthening investigations

43. In its report (A/65/329), the Committee recalled that, in paragraph 18 of General Assembly resolution 62/247, on strengthening investigations, the Assembly had requested the Secretary-General to prepare for its consideration and approval, in close cooperation with the Office of Internal Oversight Services, a report providing detailed information on terms of reference with regard to the proposed comprehensive review of investigations in the United Nations.

44. The Independent Audit Advisory Committee understood that, in response to the request of the General Assembly, a task force, chaired by the Deputy Secretary-General, had been established. The objective of the task force was to review the types of investigations being conducted in the Secretariat; make suggestions on the need to improve systems; examine steps that would be required to implement change; and prepare the terms of reference that had been requested by the Assembly in its resolution 62/247. The task force was supported by a working group that was tasked to conduct the review and report back to the task force. As a result of the review, the Committee has been informed that OIOS has been conducting an assessment of the workload that would result if OIOS were to assume the responsibility to conduct all investigations in the United Nations and an assessment of the amount of resources that would be entailed, before taking a final position in that respect. **The Independent Audit Advisory Committee will continue to monitor developments in this area and looks forward to receiving an update on**

the key steps being taken to address the request of the Assembly. The Committee believes that there is a need for a more coordinated and integrated approach to investigation activities within the United Nations.

Inspection and evaluation function

45. In its report (A/66/85), the Committee reported that a decision to reduce the evaluation cycle from a period of 11 to 13 years to a period of 8 years had been approved by the Committee for Programme and Coordination in the strategic framework for the period 2012-2013 and by the General Assembly in its resolution 65/244. It was also noted that in the view of OIOS, an eight-year cycle of programme evaluation covering all 27 programmes was necessary in order to provide the Secretary-General and the Assembly with comprehensive programme-level evaluations on each of the programmes within a reasonable time frame.

46. Included among the 27 programmes are those funded predominantly from extrabudgetary sources. According to the workplan that was presented to the Committee for the biennium 2012/2013, all but one of the five programmes under consideration for evaluation were funded 95 per cent or more from extrabudgetary sources. The Committee was further informed that all the inspection and evaluation activities are currently being funded from either the regular budget or the support account. **This led the Independent Audit Advisory Committee to recommend in its report (A/66/85) that the issue of funding arrangements for OIOS be revisited in the light of the report that had been requested of the Secretary-General pursuant to paragraph 3, part III, of General Assembly resolution 61/275. The Committee would like to reiterate this recommendation.**

D. Financial reporting

47. Under subparagraphs 2 (h) and (i) of the terms of reference, the Independent Audit Advisory Committee has the responsibility to advise the General Assembly on the operational implications of the issues and trends apparent in the financial statements of the Organization and the reports of the Board of Auditors, and on the appropriateness of accounting policies and disclosure practices; and to assess changes and risks in those policies.

48. During the reporting period, the Independent Audit Advisory Committee engaged in discussions with the Board of Auditors and officials of the Office of Programme Planning, Budget and Accounts on a number of issues relating to financial reporting. The issues discussed included:

(a) The status of implementation of International Public Sector Accounting Standards (IPSAS) in the United Nations, including recent progress, challenges faced, the revised timeline for the implementation of IPSAS and the synchronization of the IPSAS timeline and strategy with that of the enterprise resource planning system project timeline;

(b) Consideration of the growth in assessed and voluntary contributions and other trends in the financial statements.

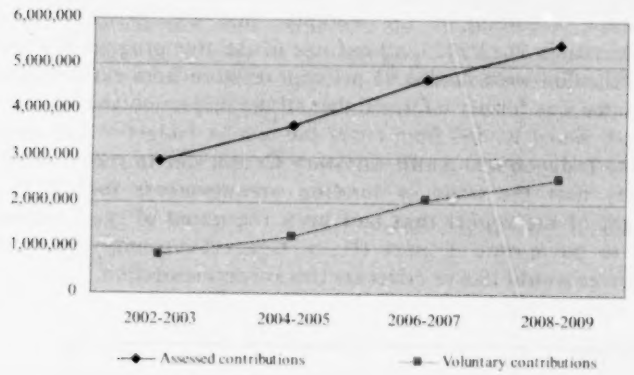
49. With respect to the growth in assessed and voluntary contributions, the Committee looked at the trends based on the reports of the Board of Auditors on the United Nations from 2002 to 2009 (see figure V). The Committee noted that the

assessed contributions grew at a rate of 27 per cent in 2004-2005, 28 per cent in 2006-2007 and 17 per cent in 2008-2009. On the other hand, voluntary contributions grew by 48 per cent, 67 per cent, and 22 per cent during the same periods. The Committee also noted that as a percentage of total income, voluntary contributions had grown from 18 per cent in 2002-2003 to 26 per cent in 2008-2009. The Committee was informed that the Panel of External Auditors of the United Nations had also previously raised its concern on the matter in a letter to the Secretary-General.

Figure V

Trends in assessed and voluntary contributions[a]

(Thousands of United States dollars)



[a] As set out in the reports of the Board of Auditors on the United Nations (A/59/5 (Vol. I), chap. II; A/61/5 (Vol. I), chap. II; A/63/5 (Vol. I), chap. II; and A/65/5 (Vol. I), chap. II).

50. **As far as the reports of the Board of Auditors on the United Nations are concerned, the Independent Audit Advisory Committee believes that relying on voluntary contributions for one quarter of its financing exposes the Organization in general and the respective programmes in particular to risks which the Committee believes the Administration should articulate and mitigate. Furthermore, the Committee expresses concern regarding the sustainability of such significant overall contribution increases given the fiscal challenges facing many Member States.**

E. Coordination among United Nations oversight bodies

General consideration

51. During the reporting period, in addition to its regularly scheduled meetings with OIOS, the Committee also met with other oversight bodies, including the Joint Inspection Unit, the Audit Advisory Committee of the United Nations Development Programme and the Board of Auditors of the United Nations. Both the Independent Audit Advisory Committee and the Audit Advisory Committee of the United

Nations Development Programme welcomed the opportunity to discuss issues of common interest. In separate meetings with the Board of Auditors, the Joint Inspection Unit and OIOS, the Committee took note of the positive relationship fostered through the tripartite coordination meetings of the oversight bodies and the sharing of workplans to avoid duplication.

52. During the its fifteenth session, the Committee and the Board of Auditors continued to exchange experiences and discussed ways to enhance cooperation and effectiveness without prejudice to their respective mandates. The Committee and the Board also engaged in extensive discussions on the Board's findings on the operational implications of the trends in the financial statements.

53. The dialogue between the Board and the Committee allowed for the sharing of perspectives on matters of mutual concern and provided a useful opportunity for cooperation among United Nations oversight bodies.

Other matters

54. As part of its regular sessions with OIOS, the Committee was apprised of the developments pertaining to the proposal requested pursuant to paragraphs 19 and 20 of the General Assembly resolution 65/243 B regarding the willingness of the Board of Auditors to conduct performance audits. The matter was further discussed with the Board in an exchange of views.

55. The Committee noted that the main purpose of the external audits was to express an opinion on the financial statements of the Organization. In so doing, the Committee recognized that the external auditors might become aware of issues of efficiency, economy and effectiveness, which could, in their professional judgement, serve as a basis for additional performance audit work that should be performed by them, OIOS or another appropriate audit entity. The Committee was informed that the Board of Auditors had been carrying out performance audits in the context of efficiency alone, as provided for in regulation 7.5 of the Financial Regulations and Rules of the United Nations.

56. The Committee was cognizant of the fact that according to International Standards of Supreme Audit Institutions (ISSAI) Standard 5000, external auditors of publicly funded international institutions perform both regularity (the traditional financial statement audit) and performance audits. The Board of Auditors is seeking a strengthened mandate to cover the "three Es" (economy, efficiency and effectiveness), as well as the ability to issue stand-alone reports on the results. **The Independent Audit Advisory Committee is of the view that should the General Assembly authorize the Board of Auditors to carry out additional performance audits, measures should be put in place to make sure that such audits are not unnecessarily or inappropriately duplicative or overlapping with those performed by OIOS. Ensuring the absence of overlap or duplication will require concerted effort between OIOS and the Board of Auditors and would necessitate the Board to place more emphasis on the work done by OIOS.**

57. The Committee was also informed that any performance audits initiated by the Board of Auditors, based on its financial audit work, would not result in additional costs to the Organization because there would be a realignment of the resources under the existing financial audit arrangement. However, additional costs would be incurred in the future, should the General Assembly request additional performance audits.

F. Cooperation and access

58. The Independent Audit Advisory Committee is pleased to report that it has received the full cooperation of the Joint Inspection Unit, the Board of Auditors, the Office of Internal Oversight Services and senior management in the Secretariat, including the Department of Management, in discharging its responsibilities. The Committee was also given appropriate access to the staff, documents and information it needed to undertake its work. The Committee looks forward to continued cooperation with the entities with whom the Committee interacts in order for it to discharge its responsibilities, as set out in the terms of reference, in a timely manner.

IV. Conclusion

59. Within the context of its terms of reference, the Independent Audit Advisory Committee provides the observations, comments and recommendations, as contained in paragraphs 9, 14, 17 to 20, 23, 26, 27, 31, 37, 40, 42, 44, 46, 50 and 56 above, for the consideration of the General Assembly.